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SENSITIVE BUT UNCLASSIFIED
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E.O. 12958: N/A
TAGS: ECON EFIN EPET ETRD ENRG VM
SUBJECT: GVN'S PETROL PRICE LIBERALIZATION - A SHORT-LIVED
EXPERIMENT?

(U) This cable is sensitive but unclassified. Not for Internet.

¶1. (SBU) Summary: A May 1 Government of Vietnam (GVN) regulation on oil and petrol management allows enterprises greater autonomy in setting retail petrol prices. The GVN made it clear, however, that this autonomy only extended so far - with Hanoi reserving the right to step in if petrol price increases threatened wider price stability. Enterprises have to "seek permission" from the GVN for all price increases. On May 7, Vietnamese petroleum enterprises uniformly raised gasoline prices seven percent per liter. In early August, however, concerns over inflation prompted the GVN to cut import tariffs, a move in part prompted by higher fuel prices. On August 16, the GVN mandated that retailers reduce the gasoline price by about four percent (USD 0.03) per liter to help curb inflation. Although GVN officials claim this move is only temporary, Hanoi's August 16 direct price intervention, and safeguards in the new regulation show that the GVN is not willing to relinquish completely its involvement in Vietnam's petroleum market any time soon. End Summary.

PETROL PRICES RISE
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¶2. (U) Under Decree 55, the new regulation on oil and petrol management that came into effect on May 1, oil and petroleum trading enterprises in Vietnam now have increased rights to determine retail petrol prices. Despite this apparent loosening of government price controls, the GVN has reserved the right to intervene if petrol price increases threaten wider price stability. In an April 20 press conference, one day after the Ministry of Trade (MOT) and Ministry of Finance (MOF) met with the 11 authorized - and state-owned - petrol distributors to discuss implementation of the new decree, then-Trade Minister Truong Dinh Tuyen clarified publicly that the government will allow enterprises to set their retail prices, but only in a manner that will not cause "severe impact" on production costs and prices of products required for "daily life."

¶3. (SBU) A Ministry of Trade contact confirmed that during the April 19 meeting, participants discussed ways to implement the decree and provided "guidelines" for doing business in oil and petroleum products. These principles include: 1) avoiding upheaval and unnecessary increases in prices of other products; 2) controlling oil and petroleum product prices to keep the CPI at a lower rate than the GDP growth rate; and, 3) guaranteeing stable contributions to the State budget. Furthermore, as the decree stipulated, the retailers must inform the two ministries prior to enacting any price increases, with the ministries reserving the right to advise enterprises to "reconsider their intention, if necessary," our

contact reported.

¶4. (U) Less than one week after receiving the new authority to determine prices, on May 7, Vietnamese petroleum retailers uniformly raised the gasoline price by USD 0.05 (seven percent) per liter. News reports indicate that petroleum enterprises originally planned a gas rate hike of USD 0.06 per liter, but settled on USD 0.05 for the initial foray into "market pricing," following "consultations" with the MOT and the MOF. Retail petrol prices remained at this level, approximately USD 0.74 per liter, from May 7 until early August.

Move Elicits Mixed Reviews
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¶5. (U) The new decree, which aimed to reduce pressure on the GVN over oil and petrol subsidies, and to allow domestic prices to align more closely with global prices, drew a mixed reaction. Not surprisingly, oil enterprises applauded the move to increase their leverage over pricing schemes, but some experts worry that it is "too early" to give businesses the power to determine prices on their own. These experts fear that businesses could "join hands" to fix prices and this would hurt consumers. Head of the Central Institute for Economic Management Vo Tri Thanh publicly condemned the decree, saying that macro-regulation was still necessary over such an important commodity, particularly in light of Vietnam's under-developed distribution system and the lack of competitiveness in the retail petrol market. (Note: Of the 11 state-owned petroleum distributors, the top three --Petrolimex with 60-65 percent market share, Saigon Petro with 15-20 percent market share and Petec with 13 percent market share -- control the vast majority of the market. End note.)

THE IMPACT OF PRICE INCREASES
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¶6. (U) Prices of some goods and services began to rise after petroleum importers announced their retail price increase. According to Nguyen Chi Trung, Deputy Head of the Management Board of the Tran Chanh Chieu Market in Ho Chi Minh City, the price of fresh and frozen food at wholesale markets in Ho Chi Minh City went up by two percent; vegetable oil by five percent; cosmetics by three percent; and pork products by five to twelve percent. Mr. Duong Kien, Vice Manager of the Business Division of Chuong Duong Beverage Company, said that his company is considering increasing prices by five percent. The Hanoi Bus Station confirmed it would not raise fares for its coaches, and warned consumers not to be cheated by bus owners capitalizing on the fuel spike to rip off customers. Taxi firms have not made any public announcements about fee increases, but analysts expect current transport fees to change soon. Some taxi companies, including government-owned Hanoi Taxi and Taxi CP, already have raised fees for the first few kilometers of the trip.

MOF ASSURANCES
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¶7. (U) In the face of these price increases, Nguyen Tien Thoa, Head of the Price Control Department at the MOF, assured consumers earlier this summer that food and foodstuff prices would not see "big increases" in the future. Despite some liberalization of petrol prices, the GVN still controls prices of input materials such as power, coal, diesel and kerosene as well as airfares, railway and bus transportation fees. Price increases for goods will not exceed petrol price increases, Mr. Thoa stated.

¶8. (SBU) As the CPI rose to 6.19 percent in July and approached the National Assembly-set annual target of 7 percent, however, pressure mounted for the GVN to take action. Its first step was to issue the August 3 Decision 69/2007 from the Ministry of Industry and Trade (formed through the merger of MOT with Ministry of Industry) reducing import tariffs on a number of consumer goods to ease the threat of inflation. The MOF clarified that Decision 69's sharp reduction of import tariffs on food, foodstuff, animal feed and construction materials would only be temporary, although cuts on

fully-assembled cars, cosmetics, second-hand automobiles and electromagnetic products are to be permanent. In an August 8 telephone conversation, MOF Taxation Policy Department Senior Expert Ms. Mai Thi Thu Van confirmed to the Embassy that higher fuel prices, while only one component, did contribute to the GVN's decision to reduce import tariffs. Even as details of Decision 69 became public, however, rumors began to circulate that the GVN would also step in to reduce retail petrol prices.

PETROL PRICES FALL
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¶9. (SBU) On August 13, public buzz over petrol price cuts increased as press reports circulated that during a weekend cabinet meeting, Prime Minister Tan Nguyen Dzung approved an MOF proposal to cut retail petroleum prices by about USD 0.03, or four percent, "to contain inflation." On August 16 the government confirmed that it would cut gasoline prices by four percent the same day, in line with the PM-approved plan. Reports of the move hit Internet press outlets by mid-morning, with some reporters impugning petrol retailers for maintaining the elevated prices since May, despite world oil prices falling over that time period. The retailers defended their actions by reporting that they continue to incur losses despite lower international prices. The GVN's August 16 move, however, has forced their hand and prices in Hanoi fell to the lower, government-mandated rate by mid-afternoon that day.

¶10. (SBU) On August 16, MOF Price Management Bureau Deputy Director General Ms. Nguyen Thanh Huong informed EconOff that the GVN mandated price cuts were justified by a stipulation in the new decree that retailers could set their prices, "with guidance and direction from the state." That guidance and direction, she explained, is compulsory. She pointed to the National Assembly-approved target of holding CPI growth to under 7 percent for the year as the reason for instituting both the import tariff cuts earlier this month and now the mandated petrol price cuts. Ms. Huong described the fuel price cuts as "temporary," but affirmed that regardless of changing market conditions and/or fluctuations in the world oil market, retailers would not be allowed to re-raise prices until 2008, when it will be clear whether Vietnam is able to meet its self-imposed 2007 goal of limiting consumer price increases.

COMMENT
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¶11. (SBU) In allowing enterprises to determine gasoline prices, Decree 55 showed positive signs of being an important step in the direction of a market economy for Vietnam. The decree itself, however, built in significant limitations authorizing the GVN to intervene if it deemed necessary. Oil and petrol traders and distributors, for example, must still report monthly on import volumes, prices, stocks and profits. The GVN has also put a cap on the amount of price increases per quarter. These requirements, coupled with public statements by government officials suggested from the beginning that the GVN remains cautious about how far and how fast it should proceed in letting the market decide the price of gasoline. The August 16 mandate that retailers lower prices at the pump confirmed that Hanoi continues to have misgivings and shows that the GVN is not willing to relinquish entirely its involvement in Vietnam's petroleum market any time soon.

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